

March 15, 2002

President of the Senate/Speaker of the House
House and Senate Finance Committee Members
Alaska State Capitol

Dear State Legislator:

AS 37.10.430(b) requires that:

[b]y March 15 of each year, the Department of Revenue shall, after consulting with the Alaska Permanent Fund Corporation, prepare a report setting out the balance in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) on January 1 and on December 31 of the previous calendar year. The report shall state the nominal, real, and realized return on the budget reserve fund compared to the nominal, real, and realized return on the permanent fund and the general fund during the previous calendar year.

The required report is attached.

Page 1 sets forth the January 1, 2001 and December 31, 2001 fund balances for the Constitutional Budget Reserve Fund (CBRF).

Page 2 provides the comparative annual rates of return for the CBRF, Alaska Permanent Fund, and the State's General Fund. The difference in performance reflected on page 2 of the report results primarily from the differences in asset allocation among the funds and the relative performance between the funds' comparable asset classes.

Page 3 provides comparisons of these funds' asset allocations during 2001. Since the General Fund has a moderate risk tolerance and high liquidity requirements, that fund is invested in fixed income securities (e.g., bonds and other debt obligations), with no investment in equities (e.g., stocks).

I would be happy to answer any questions you have on the investment of the CBRF.

Sincerely,

/s/ Wilson L. Condon
Commissioner

Attachment

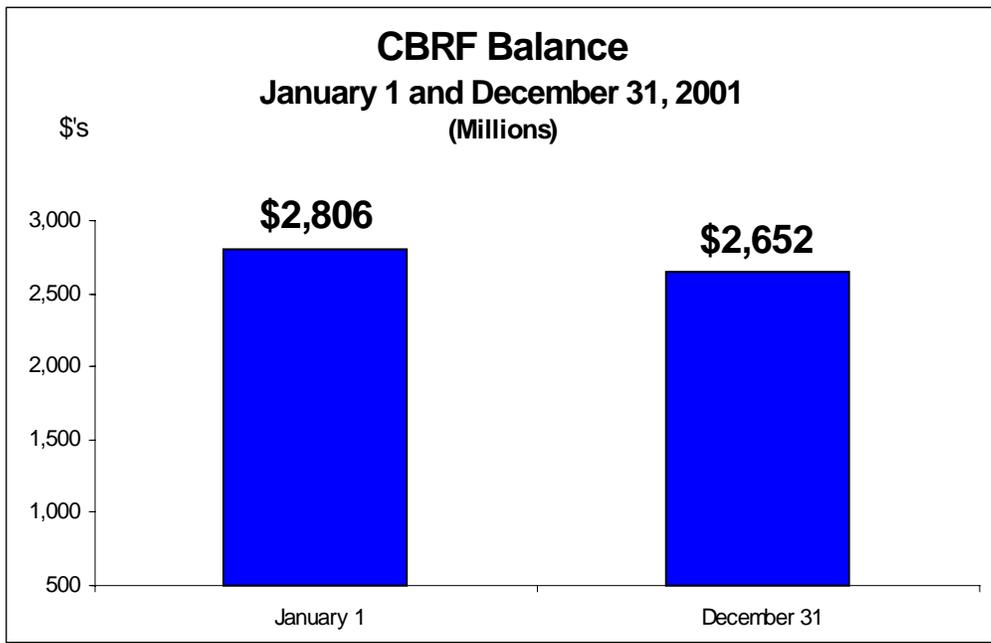
Department of Revenue
Treasury Division

Annual Report on the Constitutional Budget Reserve Fund

March 15, 2002

Sec. 37.10.430(b): *By March 15 of each year, the Department of Revenue shall, after consulting with the Alaska Permanent Fund Corporation, prepare a report setting out the balance in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) on January 1 and on December 31 of the previous calendar year. The report shall state the nominal, real, and realized return on the budget reserve fund compared to the nominal, real, and realized return on the permanent fund and the general fund during the previous calendar year.*

Constitutional Budget Reserve Fund Balances



Department of Revenue
Treasury Division

Cont'd: Annual Report on the Constitutional Budget Reserve Fund

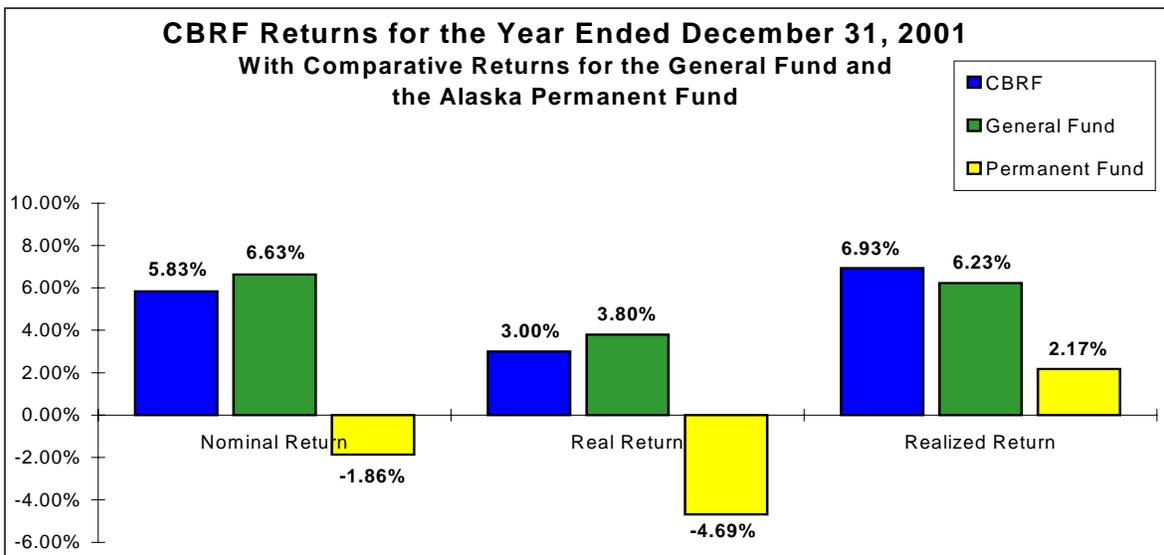
March 15, 2002

2. Comparative Returns for 2001

Constitutional Budget Reserve Fund - General Fund – Alaska Permanent Fund Corporation.

Fund	Nominal (Total) Return ²	Real Return ³	Realized Return ⁴
Constitutional Budget Reserve Fund ¹	5.83%	3.00%	6.93%
General Fund	6.63%	3.80%	6.23%
Alaska Permanent Fund Corporation ⁵	-1.86%	-4.69%	2.17%

- ¹ Reflects the combined rates of return for the CBRF main account and subaccount.
- ² State Street Analytics Performance Reports. Total return includes all components of investment income, including interest, dividends and realized and unrealized gains and losses.
- ³ Total return adjusted for 2.83% CPI. U.S. Department of Labor, Bureau of Labor Statistics.
- ⁴ Custodial banks and external performance providers do not calculate a realized return. These amounts were calculated by the Treasury Division. Realized returns *do not* include unrealized gains and losses in investment income. Comparisons between realized and total return have no meaning.
- ⁵ Provided by Alaska Permanent Fund Corporation.



Department of Revenue
Treasury Division

Cont'd: Annual Report on the Constitutional Budget Reserve Fund

March 15, 2002

